Business Progression Through CEO Succession: Building Momentum and Fueling Growth with Proactive Planning

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CEO tenure is getting shorter: The median tenure among S&P 500 CEOs has steadily dropped and was just 4.8 years in 2022. Partially driven by the disruption of the COVID-19 pandemic, CEO turnover was 50% higher in 2023 than in 2022.

Given these shortening CEO lifespans, planning for the next CEO becomes an even greater imperative. It weighs on the minds of CEOs who are sitting on boards, grooming future CEOs or considering their own succession. Yet many boards find themselves ill-prepared for the inevitable. A 2024 BoardSpan survey of 200 directors unveiled a sobering truth: less than 10% feel confident in their emergency and long-term plans.

Effective succession transcends the mere act of leadership substitution; it entails the careful choreography of a multiyear and complex process. During my many conversations with CEOs and board members, I field questions about this process regularly. Executed well, succession planning ensures continuity and sets the organization up for future success. Done poorly, succession missteps can lead to organizational upheaval and the destruction of significant shareholder value.

The departure of a CEO – planned or abrupt – reverberates across the company and its ecosystem. Shareholders, employees and customers alike fixate on these transitions, aware of their far-reaching consequences. Selecting and transitioning leadership isn't just a change – it's an inflection point that can alter a company's trajectory – and for boards and CEOs alike, it's the ultimate test of judgment and stewardship.

When Boards Should Act

While scenarios like the dreaded "hit by a bus" situation demand succession action with unmistakable urgency, the need for change in other scenarios isn't as clear. Boards may hesitate to broach the subject with a high-performing CEO who has signaled a desire to stay. They may fear initiating a distracting internal horse race or rattling investors with speculation of an impending change.

The process is unavoidable, however, and identifying the next CEO begins on day one of the current CEO's tenure. The first order of business is to ensure options are available in the case of an emergency. Then, as the CEO's tenure unfolds, the focus naturally shifts to long-term planning – a collaborative effort jointly steered by both the CEO and the board.

Succession planning is a dynamic and continual process, not a one-and-done. A top-tier approach casts a wide net assessing external candidates and grooming internal ones. This ongoing planning helps avoid the worst-case scenario of having no options available if needed and gives a board the best shot at the ideal scenario where they get to manage to an outcome, not a timeline.

The best time for succession (and its planning) is not when a company is going through existential change, or when the board's hand is being forced by activist investors. At a minimum, succession planning needs to be an annual item on the board's agenda and cover comprehensive plans for every plausible scenario. The more potential successors boards can identify, the better prepared they will be for whatever curveballs the future throws in the company's direction. That means boards must start early, cast a net wide and remain open-minded as the journey unfolds.

Who Are the Candidates?

Understanding the company's future and what kind of CEO it needs moving forward is the first step in the "who" of succession planning. That means deep industry analysis, evaluation of the company's strategic options and an appreciation of the organization's culture, which leads to a comprehensive set of criteria and a profile for the future CEO.

As business landscapes evolve and macro environments shift, boards must envision different scenarios that may reshape the profile of their ideal leader. The stack ranking of the most important criteria gets reshuffled as circumstances change.

First-time versus Veteran Candidates

In industries facing disruption, clinging to historical norms may be perilous. Winning in a world driven by innovation demands a visionary leader – one who goes beyond maintaining the status quo. Does appointing an industry veteran with decades of experience in the "old world" make sense if your conviction is that the "new world" will be radically different? Boards must have the courage of their conviction and align their criteria with what the business needs over the next decade. Rather than opting for a "safe pair of hands," the better choice may be a more forward-thinking candidate even if they are less experienced or appear unconventional at first.

Many boards recognize that replacing "like-with-like" won't suffice and that placing a bet on a first-timer may be the better call. In fact, 88% of new public company CEOs in 2023 were in their inaugural public company CEO role. However, first-time CEOs come with their own challenges since these leaders have three new jobs: reporting to a board of directors, being beholden to a shareholder base and being responsible for the end-to-end success of the business. These leaders may also be tasked with managing a team, the members of which may have been peers before.

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First-time CEOs must be humble and coachable, but also ready to make the tough calls and move the company in a different direction if that's what's required. Boards can play a vital role in guiding and supporting them but must be equally rigorous in assessing their own composition and preparedness: Are the right voices at the table to help support this CEO, and do they have a plan in place to ensure a smooth transition and successful start to the new CEO's tenure?

Internal versus External Candidates

The question of internal or external candidates can be one of the most challenging for a board to consider. External candidates introduce their own set of complexities and considerations since boards must assess factors like cultural fit alongside their technical skills. It's essential to determine whether the candidate will seamlessly integrate with the organization's culture and values or be a jarring contrast to their predecessor – which is not always a bad thing.

Board members tend to know internal candidates' strengths and opportunities for growth, as well as have a sense of the things they want internal candidates to do before being ready for the top role. The current CEO must be involved in helping get that person exposure and ensuring the right development opportunities are put on their path. While it's impossible to know how someone will perform once in the CEO seat, there's much current CEOs can do, when grooming their successors, to help stack the deck in favor of their success.

Boards must also consider that a prolonged succession process may increase the risk of high-potential individuals being tempted by CEO jobs elsewhere. To retain internal talent, boards, CEOs and CHROs must collaborate on development pathways to ensure continuous career advancement and have the required tough and transparent conversations with contenders along the way. Importantly, it's worth investing in retention including for multistep candidates because even if they're not ready now, they might well be viable for consideration in future succession cycles.

Painfully, some individuals who were once well-suited for a previous phase of succession planning may find themselves outpaced by the evolving needs of the business – reiterating the need for continuous evaluation of the CEO criteria and of the candidates themselves so you know who is still on a rising trajectory versus those who may be plateauing in terms of their potential and capacity for growth.

How Boards Run the Succession Process

Throughout succession planning, the chair of the board, or lead independent director, must have an even hand and run a robust and transparent process. In this often personal and somewhat emotional process, boards can benefit from bringing on a third party who can offer an objective perspective. Many companies choose to work with external partners, even if the board feels aligned on how they want to handle succession, since these firms can provide benchmarking, baselines and new dimensions on which to evaluate candidates that the board may not have thought of. These perspectives can be helpful especially when evaluating internal candidates whom boards might tend to inherently favor.

As business strategies continue to unfold, some CEO criteria become more important than others. In the labyrinth of talent and changing considerations, where boards are tasked with grooming internal candidates, evaluating external ones or considering first-time CEOs versus veterans, the expertise of an external search firm becomes indispensable. These parties excel in categorizing external candidates based on readiness and criteria, while also providing crucial insights into how internal hopefuls stack up against the industry's best.

Signaling is another balancing act boards must consider through the succession process. The benefit of signaling succession to the market is managing expectations. Two things investors universally dislike are uncertainty and surprises, so signaling that the business has an heir apparent and that the board is actively preparing a CEO-in-waiting addresses that challenge.

Signaling can also backfire if, in the intervening time, the board changes its mind or the company changes its approach. There are many plausible scenarios that may lead boards to go in a different direction to what once was the plan, and having a robust communication strategy that addresses the questions and needs of internal and external stakeholders alike is a key component of any successful process.

Leadership changes don't just impact the company's valuation but can also be disruptive internally. When boards put the CEO in transition, they put the entire company in transition. The unfortunate truth is that there will likely be attrition as some leaders depart. This ripple effect throughout the organization requires boards to think more broadly about succession plans for the whole leadership team, their direct reports and on down. For critical roles, boards must create retention plans and identify incentives, like cliff bonuses, to keep their top performers.

Another key consideration in the "how" of succession is the post-transition role of the departing CEO. Should they retain a seat at the table, perhaps as chair, or is a clean break more appropriate? While continuity can offer valuable insights and support, it must be weighed against the risk of impeding necessary change. It takes immense humility and trust between the incoming and outgoing CEOs to make this collaboration beneficial. This engagement has been successful at companies like ServiceNow, where Fred Luddy held a board seat after his departure as CEO, and often at Procter & Gamble, where several former CEOs stay on the board. Ultimately, the board must strike a balance, ensuring the new CEO has the freedom to enact their vision while benefiting from the wisdom of their predecessor.

Progression Toward Sustainable Value

CEO succession is a critical juncture in the life of any organization where leadership, strategic vision and company culture converge. Selecting and transitioning leadership isn't just a change – it's an inflection point that can bend the performance curve of any organization, for better or worse. For outgoing CEOs, succession is a legacy-binding process. CEO tenure won't be judged solely by the shareholder value created, but also by leaving the company in the strongest competitive position and in the hands of a well-chosen, future-fit successor.

As the economic and competitive landscapes continue to evolve and CEO tenures continue to shorten, the only way to avoid the pitfalls of a leadership transition is by being proactive and having a plan in place long before it is needed.

Leaning into the future with conviction separates the best from the rest and results in CEO succession that delivers more than just business succession: It delivers business progression marked by renewed momentum, accelerated growth and excitement for the future.

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